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Report Highlights: Vietnam's coffee production for 2007/2008 is projected to decline about 18 percent from the previous crop year due to unfavorable weather and lower yields in major coffee growing areas. As a consequence, exports for 2007/2008 are also expected to decline by about 14 percent from the last market year. Farmers continue to expand their coffee production areas and invest in inputs, spurred on by current high export prices. New government initiatives seek to improve Vietnam's coffee quality and increase its global market share.

Includes PSD Changes: No
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TABLE OF CONTENTS

| | |
|---|-----------|
| SECTION I. SITUATION AND OUTLOOK..... | 3 |
| SECTION II. STATISTICAL TABLES | 4 |
| Table 1: Vietnam's coffee production, supply and demand (PSD table) | 4 |
| Table 2: Vietnam's export trade matrix | 5 |
| Table 3: Vietnam's import trade matrix | 5 |
| SECTION III: MARKET STATUS | 6 |
| PRODUCTION... .. | 6 |
| Vietnam's 2007/2008 Coffee Crop..... | 6 |
| Table 4: Vietnam Coffee Production in Metric Tons, by Marketing Year (Oct-Sept)..... | 6 |
| Vietnam's 2008/2009 Coffee Crop..... | 6 |
| Graph 1: Vietnam's Coffee Production over 10 Marketing Years | 7 |
| CONSUMPTION..... | 7 |
| STOCKS..... | 7 |
| TRADE..... | 7 |
| Table 5: Vietnam's green coffee exports over 5 marketing years | 8 |
| Table 6: Top ten markets for Vietnamese green coffee exports in 2006 - 2007 | 8 |
| PRICES..... | 9 |
| Table 7: Vietnam's green coffee average export prices in 2007-2008 | 9 |
| Graph 2: Vietnam's average coffee export prices over 18 marketing years | 9 |
| Table 8: Robusta bean domestic prices in Dak Lak province for MY2006/07–2007/08 | 10 |
| POLICY..... | 10 |
| MARKETING..... | 11 |

SECTION I. SITUATION AND OUTLOOK

Vietnam's coffee production forecast for CY 2007/2008 is set at 1.05 million metric tons or 17.5 million 60kg bags due to unfavorable weather conditions in the main coffee growing areas and anticipated lower yields than the previous crop year. This represents a decline in production of around 17.6 percent from the last crop year, though still 28 percent more than the 13.66 million bags of the 2005/2006 crop year. The outlook for CY 2008/2009 is much brighter, however, with an expected output of about 21.5 million 60 kg bags. This projected 23 percent increase in production is premised on expected improvement in weather conditions and yields as well as some increase in the growing area.

Despite government efforts encouraging farmers to switch from coffee to other crops in marginal growing areas, coffee farmers continue to expand their production area in response to high coffee prices. The demand for Robusta and Arabica coffee seedlings remains strong, though Arabica coffee still accounts for only 2.3 percent of total coffee production. Both government and the industry are engaged in efforts to improve Vietnam's coffee quality with an eye to increasing global market share. Thought is also being given to encouraging increased local consumption.

Coffee exports for CY 2007/2008 are expected to be 13.6 percent lower than the previous market year due to the anticipated lower output.

SECTION II. STATISTICAL TABLES

Table 1: Vietnam's coffee production, supply and demand (PSD table)

Country *Vietnam*Commodity **Coffee, Green**

(1000 HA)(MILLION TREES)(1000 60 KG BAGS)

| | 2007 | Revised | | 2008 | Estimate | | 2009 | Forecast | |
|--------------------------------|------------------|------------------|-------------------------|------------------|------------------|-------------------------|------------------|------------------|-------------------------|
| | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New |
| Market Year Begin | | 10/2006 | 10/2006 | | 10/2007 | 10/2007 | | 10/2008 | 10/2008 |
| Area Planted | 515 | 515 | 515 | 517 | 517 | 517 | 0 | 0 | 520 |
| Area Harvested | 495 | 495 | 495 | 495 | 495 | 490 | 0 | 0 | 495 |
| Bearing Trees | 615 | 615 | 615 | 619 | 619 | 610 | 0 | 0 | 627 |
| Non-Bearing Trees | 36 | 36 | 36 | 35 | 35 | 44 | 0 | 0 | 37 |
| Total Tree Population | 651 | 651 | 651 | 654 | 654 | 654 | 0 | 0 | 664 |
| Beginning Stocks | 285 | 285 | 285 | 847 | 847 | 847 | 619 | 619 | 339 |
| Arabica Production | 480 | 480 | 480 | 432 | 432 | 400 | 0 | 0 | 500 |
| Robusta Production | 20770 | 20770 | 20770 | 17630 | 17630 | 17100 | 0 | 0 | 21000 |
| Other Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Production | 21250 | 21250 | 21250 | 18062 | 18062 | 17500 | 0 | 0 | 21500 |
| Bean Imports | 79 | 79 | 79 | 100 | 100 | 70 | 0 | 0 | 70 |
| Roast & Ground Imports | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 1 |
| Soluble Imports | 35 | 35 | 35 | 40 | 40 | 25 | 0 | 0 | 25 |
| Total Imports | 115 | 115 | 115 | 141 | 141 | 96 | 0 | 0 | 96 |
| Total Supply | 21650 | 21650 | 21650 | 19050 | 19050 | 18443 | 619 | 619 | 21935 |
| Bean Exports | 19917 | 19917 | 19917 | 17527 | 17527 | 17200 | 0 | 0 | 20500 |
| Rst - Grnd Exp. | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 1 |
| Soluble Exports | 27 | 27 | 27 | 33 | 33 | 33 | 0 | 0 | 35 |
| Total Exports | 19945 | 19945 | 19945 | 17561 | 17561 | 17234 | 0 | 0 | 20536 |
| Rst,Ground Dom. Consumption | 808 | 808 | 808 | 818 | 818 | 818 | 0 | 0 | 828 |
| Soluble Dom. Cons. | 50 | 50 | 50 | 52 | 52 | 52 | 0 | 0 | 60 |
| Domestic Use | 858 | 858 | 858 | 870 | 870 | 870 | 0 | 0 | 888 |
| Ending Stocks | 847 | 847 | 847 | 619 | 619 | 339 | 0 | 0 | 511 |
| Total Distribution | 21650 | 21650 | 21650 | 19050 | 19050 | 18443 | 0 | 0 | 21935 |
| Exportable Production | 20392 | 20392 | 20392 | 17192 | 17192 | 16630 | 0 | 0 | 20612 |

Table 2: Vietnam's export trade matrix

| | | | |
|-------------------|---------------|----------------|-------------|
| Country | Vietnam | | |
| Commodity | Coffee, Green | | |
| Time Period | Oct.-Mar. | Units: | MT |
| Exports for: | 2006 | | 2007 |
| U.S. | 99363 | U.S. | 67464 |
| Others | | Others | |
| Germany | 115072 | Germany | 66154 |
| Italy | 53672 | Spain | 44079 |
| Spain | 44092 | Italy | 43235 |
| Belgium | 24524 | Belgium | 28458 |
| Indonesia | 24348 | France | 22074 |
| United Kingdom | 20076 | Japan | 20254 |
| South Korea | 19450 | Korea | 17506 |
| France | 15677 | United Kingdom | 15836 |
| Poland | 15549 | Algeria | 12303 |
| Netherlands | 15416 | | |
| Total for Others | 347876 | | 269899 |
| Others not Listed | 137761 | | 255637 |
| Grand Total | 585000 | | 593000 |

Source: Vicofa, MARD, General Statistics Department, General Customs Office

Table 3: Vietnam's import trade matrix

| | | | |
|-------------------|---------------|-------------|-------------|
| Country | Vietnam | | |
| Commodity | Coffee, Green | | |
| Time Period | Oct.-Mar. | Units: | MT |
| Imports for: | 2007 | | 2008 |
| U.S. | | U.S. | |
| Others | | Others | |
| Laos | 2690.3 | Laos | 1453 |
| China | 120 | China | 120 |
| South Korea | 63 | Switzerland | 70.2 |
| Nicaragua | 37.96 | Nicaragua | 37.95 |
| Portugal | 37.2 | Taiwan | 4.6 |
| Ethiopia | 18 | Japan | 0.8 |
| Malaysia | 3 | Canada | 0.3 |
| Taiwan | 1.63 | Singapore | 0.3 |
| Japan | 0.3 | | |
| Total for Others | 2971.39 | | 1687.15 |
| Others not Listed | | | |
| Grand Total | 2971.39 | | 1687.15 |

Source: Trade, General Customs Office

SECTION III: MARKET STATUS**PRODUCTION****Vietnam's 2007/2008 Coffee Crop**

Post revises Vietnam's 2007/2008 coffee production estimate to 1.05 million metric tons (MMT) or 17.5 million 60kg bags of green beans. This represents a decrease of 17.6 percent from the previous crop year. Heavy rainfall destroyed coffee blossoms in several key planting areas, resulting in lower production. In addition, unseasonable frost in Lam Dong province, the second largest coffee growing region, affected the size and volume of cherries, which led to lower yields. Coffee yields for the 2007/2008 crop year is expected to decline by 17 percent.

Despite government efforts encouraging coffee growers to focus on replacing old coffee trees and improving production techniques, farmers continue to expand their coffee plantation, even to areas less suitable for coffee growing. High export coffee prices continue to drive farmers' behavior. Robusta coffee accounts for the bulk of production, with only 2.3 percent of total coffee production being Arabica.

Table 4: Vietnam Coffee Production in Metric Tons, by Marketing Year (Oct-Sept)

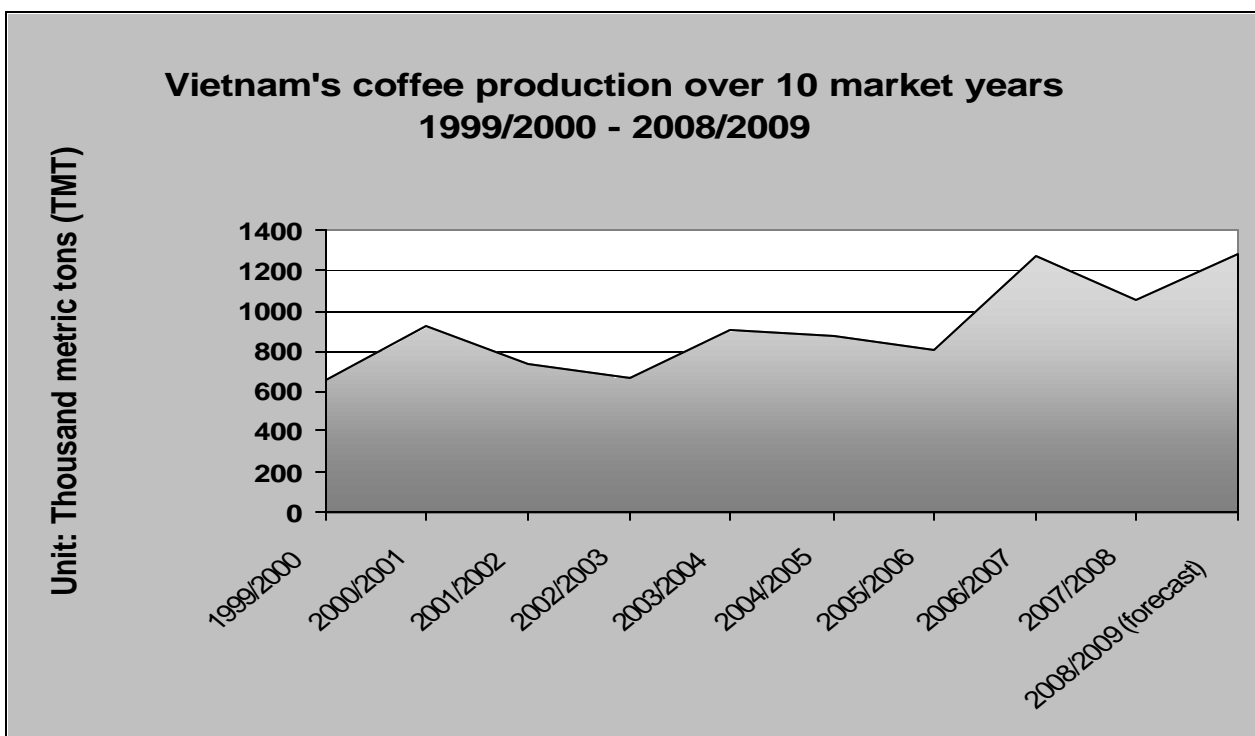
| | 2006/2007 | 2007/2008 | | 2008/2009 |
|--|-----------|-----------|---------|-----------|
| Marketing year begins | 10/2006 | 10/2007 | | 10/2008 |
| | | Old | Revised | Forecast |
| Sown Area (thousand ha) | 515 | 517 | 517 | 520 |
| Area Harvested (thousand ha) | 495 | 495 | 490 | 495 |
| Beginning Stock (thousand tons) | 17.1 | 50.8 | 50.8 | 28.6 |
| Production (green bean, thousand tons) | 1275 | 1084 | 1050 | 1290 |
| Average coffee yield (ton/ha) | 2.58 | 2.19 | 2.14 | 2.61 |

Source: Trade, FAS estimate

Vietnam's 2008/2009 Coffee Crop

Vietnam's 2008/2009 coffee production is expected to increase by 23 percent over the 2007/2008 market year due to anticipated better growing conditions and significantly higher coffee yields. This will also be the on-year of the biennial production cycle for coffee trees. Post forecasts coffee yields for the 2008/2009 crop will increase by about 22 percent.

Graph 1: Vietnam's Coffee Production over 10 Marketing Years



Source: FAS estimate

CONSUMPTION

Post's estimate for Vietnam's 2007/2008 domestic consumption remains at 870 thousand 60kg bags or 52.2 thousand metric tons (tmt) green bean equivalent. This is projected to increase to about 54 tmt by the next crop year in response to domestic marketing campaigns by major processors and government initiatives. Local coffee consumption is increasing, particularly in the coffee growing regions and larger urban areas. However, per capita coffee consumption is still only 0.6 kg/year; local consumption accounts for around 5 percent of total production.

STOCKS

Official data for coffee stocks are not available. Post keeps unchanged carry in stocks for 2007/2008. Exports should continue to increase as coffee export prices remain high. In view of this and expected lower production, Post revises down ending stocks for 2007/2008 by 45 percent. Growers, processors and traders are holding stocks.

TRADE

Vietnam's total coffee exports for MY 2007/08 are estimated at 17.23 million bags, down 1.9 percent from earlier estimates due to anticipated lower output. Thus far, for the first half of the market year, 593 tmt or 9.88 million bags of coffee have been exported. This is a decline of 24 percent from the same period the previous year, though still 60 percent higher than the same period in MY 2005/2006. Export values for the first half of MY 2007/2008 are 3 percent higher than the same period the previous market year and 208 percent more than in MY 2005/2006.

Table 5: Vietnam's green coffee exports over 5 marketing years

| Month | 2003/2004 | | 2004/2005 | | 2005/2006 | | 2006/2007 | | 2007/2008 | | % Change 06/07 - 07/08 | |
|------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|------------------------------|----------|
| | Vol. (tmt) | Value (\$mil.) | Vol. (tmt) | Value (\$mil.) | Vol. (tmt) | Value (\$mil.) | Vol. (tmt) | Value (\$mil.) | Vol. (tmt) | Value (\$mil.) | Vol. | Value |
| Oct. | 46 | 30 | 65 | 40 | 57 | 46 | 52 | 64 | 42 | 70 | -19 | 9.3 |
| Nov. | 55 | 35 | 55 | 34 | 55 | 46 | 64 | 87 | 65 | 111 | 1.6 | 28 |
| Dec. | 85 | 53 | 87 | 56 | 63 | 57 | 106 | 149 | 142 | 244 | 34 | 64 |
| Jan. | 69 | 44 | 82 | 54 | 64 | 66 | 244 | 350 | 172 | 309 | -29.5 | -11.7 |
| Feb. | 87 | 57 | 64 | 43 | 52 | 56 | 118 | 172 | 76 | 156 | -36 | -9.3 |
| Mar. | 83 | 54 | 82 | 60 | 80 | 89 | 201 | 252 | 96 | 217 | -52 | -14 |
| Sub-total | 425 | 273 | 435 | 287 | 371 | 360 | 785 | 1,074 | 593 | 1,107 | -24 | 3 |
| April | 83 | 54 | 82 | 63 | 73 | 82 | 130 | 189 | | | | |
| May | 79 | 52 | 71 | 59 | 81 | 93 | 64 | 139 | | | | |
| June | 119 | 79 | 71 | 59 | 75 | 86 | 76 | 126 | | | | |
| July | 56 | 37 | 65 | 54 | 53 | 61 | 57 | 98 | | | | |
| Aug. | 51 | 33 | 58 | 48 | 77 | 90 | 45 | 76 | | | | |
| Sept. | 56 | 35 | 55 | 45 | 46 | 56 | 38 | 66 | | | | |
| Total | 869 | 563 | 837 | 615 | 776 | 828 | 1,195 | 1,768 | | | | |

Source: Vicofa, Vietnam Chamber of Commerce and Industry (VCCI), MARD, General Statistics Department, General Customs Office

Vietnam currently exports coffee to about 74 countries. Germany and the United States are the two largest buyers of Vietnam's green coffee exports. Vietnam also imports a small amount of green and soluble coffee. Total green coffee imports for the first half of CY 2007/2008 was just under 2 tmt, about 43 percent less than the same period in the previous market year. Purportedly, much of the green coffee imports is destined for further processing and/or re-export.

Table 6: Top ten markets for Vietnamese green coffee exports in 2006 - 2007

| Rank | Countries | 2006 | | 2007 | | % Change 2006 - 2007 | | Share of Exports (%) | |
|------|---------------------|----------------|--------------------|------------------|--------------------|-------------------------|--------------|-------------------------|------------|
| | | Volume (MT) | Value (\$1,000) | Volume (MT) | Value (\$1,000) | Volume (%) | Value (%) | 2006 | 2007 |
| | Green coffee | 980,878 | 1,217,167 | 1,229,233 | 1,911,463 | 25.3 | 57 | 100 | 100 |
| 1 | Germany | 150,660 | 192,674 | 177,015 | 278,180 | 17.5 | 44.4 | 15.4 | 14.4 |
| 2 | United States | 130,889 | 166,428 | 134,966 | 212,666 | 3.1 | 27.7 | 13.3 | 11.0 |
| 3 | Spain | 75,440 | 90,085 | 95,662 | 150,832 | 26.8 | 67.4 | 7.7 | 7.8 |
| 4 | Italy | 53,409 | 66,567 | 90,922 | 143,788 | 70.2 | 116 | 5.4 | 7.4 |
| 5 | Switzerland | 42,632 | 55,399 | 80,321 | 115,769 | 88.4 | 109 | 4.3 | 6.5 |
| 6 | Japan | 35,234 | 44,923 | 46,606 | 76,422 | 32.3 | 70 | 3.6 | 3.8 |
| 7 | Belgium | 22,072 | 28,176 | 45,523 | 72,317 | 6.2 | 56.7 | 2.3 | 3.7 |
| 8 | Indonesia | 4,377 | 5,854 | 41,390 | 60,692 | 845.6 | 936.7 | 0.4 | 3.4 |
| 9 | Netherlands | 27,058 | 32,451 | 32,440 | 51,303 | 19.9 | 58.1 | 2.8 | 2.6 |
| 10 | United Kingdom | 41,725 | 51,554 | 32,130 | 47,758 | -23 | -7.4 | 4.3 | 2.6 |

Sources: MARD, General Customs Office

PRICES

Export

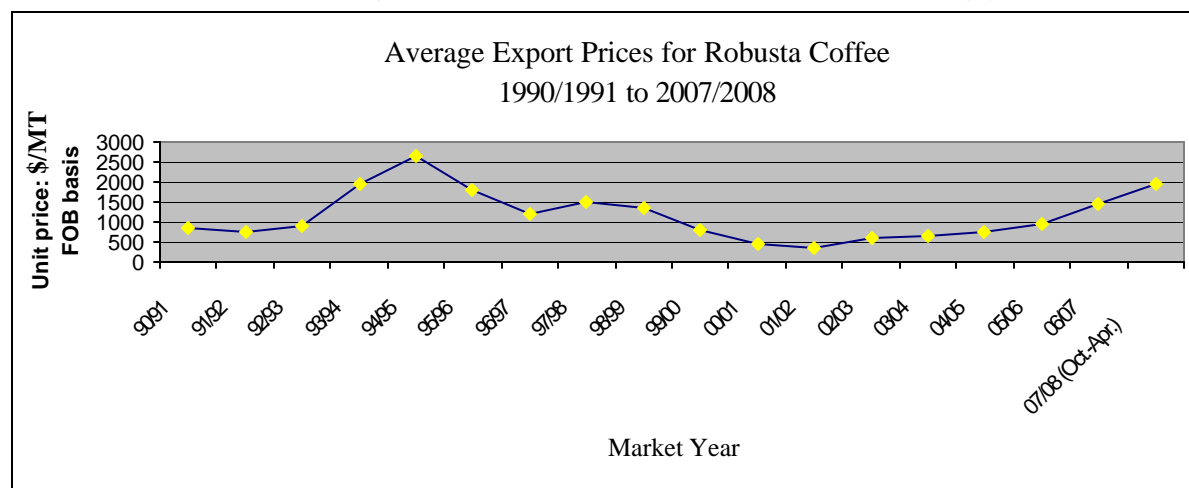
The average export price for Vietnam's Robusta coffee over the first seven months of MY 2007/2008 (Oct/April) was \$1,965.43/MT (FOB). This is almost 42 percent higher than for the same period of the previous market year and a twelve-year high. Currently Vietnam's Robusta coffee has an export quote price of \$2,150 - \$2,170/MT (FOB, Ho Chi Minh City). Local traders expect export prices will remain high in response to continued strong global demand.

Table 7: Vietnam's green coffee average export prices in 2007-2008

| Month | 2007 | 2008 | % Change |
|-------|----------|----------|----------|
| Jan | \$ 1,441 | \$ 1,884 | 31% |
| Feb | 1,461 | 2,280 | 56% |
| Mar | 1,437 | 2,382 | 66% |
| Apr | 1,446 | 2,120 | 47% |
| May | 1,484 | | |
| Jun | 1,560 | | |
| Jul | 1,585 | | |
| Aug | 1,569 | | |
| Sep | 1,582 | | |
| Oct | 1,672 | | |
| Nov | 1,701 | | |
| Dec | 1,719 | | |

Source: Vicofa, MARD

Graph 2: Vietnam's average coffee export prices over 18 marketing years



Source: MARD, Vicofa, Trade

Domestic

In keeping with higher export prices over the first seven months of MY 2007/2008, Vietnam's domestic coffee prices averaged about 41 percent higher than the same period a year ago. The price in Dak Lak province, Vietnam's largest coffee-producing area, is currently VND 33,000/kg (\$2.05) for common Robusta coffee bean. Domestic prices are currently 49 percent higher than at the start of the 2006/2007 market year and have increased 27.4 percent since the start of the current market year.

Table 8: Robusta bean domestic prices in Dak Lak province for MY2006/07–20007/08

| Month | Common Coffee bean | | |
|-------|-----------------------|-----------------------|------------------------------------|
| | MY 2006/2007 (VND) | MY 2007/2008 (VND) | Changes MY 06/07 & MY 07/08 (%) |
| Oct. | 22,100 | 25,900 | 17.2 |
| Nov. | 21,700 | 26,800 | 23.5 |
| Dec. | 21,100 | 26,900 | 27.5 |
| Jan. | 21,500 | 29,800 | 38.6 |
| Feb. | 21,600 | 35,300 | 63.4 |
| Mar. | 21,800 | 36,300 | 66.5 |
| Apr. | 21,400 | 32,500 | 51.9 |
| May | 24,300 | | |
| Jun. | 27,100 | | |
| Jul. | 27,300 | | |
| Aug. | 26,200 | | |
| Sept. | 26,800 | | |

Source: Vicofa, MOT, Dak Lak Trade Promotion Center; (VND 16,124 = \$1, as of April 9, 2008)

POLICY

Halt on expansion of coffee growing areas until 2010

The Ministry of Agriculture and Rural Development (MARD) has issued a directive to provinces calling for a halt on expansion of coffee growing areas until 2010. MARD aims to improve the quality and yields of Vietnam's coffee to enhance its competitiveness. Farmers are to be trained in better production methods and encouraged to cultivate new high-quality coffee varieties. According to this plan, the total coffee plantation area is capped at 500,000 ha. Farmers are being encouraged to replace old coffee trees or replant old areas and shift from coffee to such other crops as cocoa or cashew in areas not well suited to coffee production.

Vietnam aims to improve coffee quality

The government is encouraging small-scale coffee farmers to form producer groups or cooperatives and pool efforts and resources to gain better knowledge of planting with Good Agricultural Practices (GAP), watering, harvesting, post harvest technologies and Good Manufacturing Practices (GMP). These cooperatives are expected to have better conditions for processing, such as cement yards for coffee drying or wet processing equipment to improve coffee quality.

Coffee growers and trading companies are instructed to harvest at a rate of 95 percent ripe coffee beans only in order to improve Vietnam's export coffee quality. The current practice of mixing immature green beans with ripe beans has been negatively impacting Vietnam's coffee quality and exports. People's Committees in the major coffee growing areas are mobilizing local authorities and social organizations to reinforce these instructions.

Buon Ma Thuot Coffee Exchange Centre (BCEC) in Dak Lak to conduct online transactions by August 2008

The Buon Ma Thuot Coffee Exchange Centre (BCEC) in Dak Lak province, established in November 2004, currently sells coffee only through traditional auction methods to the domestic market. According to the Dak Lak Department of Commerce and Tourism, it expects to carry out its first online trading transactions on the BCEC by August 2008. The BCEC will help farmers and traders access better market information in order to maximize the benefit of their coffee trade. BCEC will cooperate with other international agricultural product exchange centers to build its capacity in the long term.

MARKETING

- Thai Hoa Company Ltd, one of the top five coffee exporters in Vietnam, ships about 20,000 tons of Robusta and 4,000 tons of Arabica coffee to the United States, Japan and the European Union each year. Thai Hoa has built plants to produce instant coffee and micro organic fertilizers on a closed line. This operation is seen as eco-friendly as it reduces environmental pollution from coffee shells, which are used to make micro organic fertilizer. A new coffee processing plant, with capacity for 65,000 MT/year of green beans, 100,000 MT/year of dry processing, 2,000 MT/year of soluble coffee and 20,000 MT of bio fertilizers is under construction in Lam Ha district of Lam Dong province – one of major coffee growing regions. It is scheduled for completion by end of 2009.
- Tay Nguyen Coffee Import-Export and Investment Company Ltd., the leading coffee exporter and one of the most popular brands in Vietnam, had export sales of \$300 million in 2007 and \$208 million in 2006. Over the past 12 years, Tay Nguyen has built two high quality coffee processing plants with a total capacity of 150,000 tons a year. Tay Nguyen currently exports to about 40 countries and territories.
- Vinacafe Da Lat invested \$7.5 million (equivalent to 120 billion Vietnamese dong) to build a high quality coffee processing plant in Duc Trong, Lam Dong province that is scheduled to open in August 2008. This plant has a capacity of 50,000 - 60,000 tons of coffee per year. Vinacafe's plans are also in development to invest further to build another soluble coffee plant with a 6,000 ton/yr capacity in the region in cooperation with Brazil's Coffee Association.